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SUBJECT: SOUTH AFRICA INTENSIFIES ENGAGEMENT IN ZIMBABWE;
CONSIDERS BAILOUT LOAN

REF: PRETORIA 2841

Classified By: Charge d'Affaires John J. Hartley
Reasons 1.4(b) and (d)

1. (C) Summary. Over the last ten days, South Africa has become increasingly concerned about the deteriorating economic situation in Zimbabwe and has intensified its diplomatic activity to find a solution to the crisis. Deputy President Mlambo-Ngcuka traveled to Zimbabwe July 13 and met with Zimbabwean Vice President Mujuru and President Mugabe. Mugabe sent Reserve Bank head Gono to South Africa to follow-up and discuss a possible South Africa bailout loan to Zimbabwe. South Africa is considering loaning Zimbabwe funds to pay creditors, including the IMF, hoping to use this loan as leverage for political and economic reform. End summary.

Diplomatic Flurry and Church Pressure

2. (C) Following a period of relative inactivity after the March 31 Zimbabwean parliamentary elections, the South African Government (SAG) has significantly stepped up its diplomatic engagement in Zimbabwe:

-- President Mbeki met with Zimbabwe opposition leader Morgan Tsvangirai of the Movement for Democratic Change (MDC) July 3

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in Pretoria. Tsvangirai claimed publicly after the meeting that Mbeki was changing his strategy in Zimbabwe. According to Tsvangirai, Mbeki admitted to him that "quiet diplomacy" had not worked.

-- South African Deputy President Phumzile Mlambo-Ngcuka traveled to Zimbabwe with Deputy Finance Minister Jabu Moleketi July 13 and met with Zimbabwean Vice President Joyce Mujuru and President Robert Mugabe. Mlambo-Ngcuka said she visited Harare to gain a "global understanding of the challenges" facing Zimbabwe. According to Sydney Masamvu of the International Crisis Group, who spoke to Mujuru's husband Solomon, Mlambo-Ngcuka delivered a tough message to Vice President Mujuru, pushing for the resumption of dialogue with the MDC and the end to Operation Restore Order.

-- President Mbeki met with a South African Council of Churches delegation July 15 to discuss the humanitarian situation in Zimbabwe. SACC had organized a senior-level delegation to Zimbabwe July 10-12, led by the President of the SACC, Russel Botman, and Archbishop Njongonkulu Ndungane. The delegation strongly condemned Operation Restore Order, saying that it has caused "widespread suffering to the most vulnerable people." The SACC called on the operation to stop "in God's name." According to Botman, Mbeki committed to supporting church humanitarian relief operations in Zimbabwe.

Possible Bailout Loan

3. (C) South Africa is considering loaning funds to Zimbabwe to stave off an economic collapse. EconOff spoke with National Treasury Director for International Economics Danel van Rensburg (strictly protect) July 19, who confirmed that Zimbabwe asked South Africa for a \$1 billion loan to make payments to the IMF, African Development Bank, World Bank, and Paris Club creditors, as well as to pay for food and fuel imports. In the very near term, Zimbabwe is looking at making payments on its general resources account (GRA) and poverty reduction and growth facility (approximately \$291 million) at the IMF. An IMF Board meeting will be held on August 3 during which management will request that Zimbabwe be expelled from the IMF. According to van Rensburg, South Africa is concerned that once the IMF walks, all financial flows to Zimbabwe will stop, resulting in serious repercussions for South Africa if "things go really wrong;" for example, South Africa might have to set up refugee camps on the border. President Mbeki and Finance Minister Manuel are lobbying to postpone the August 3 IMF decision for one month, to give them time to negotiate conditions with the Zimbabweans and for the Zimbabweans to "show good faith."

Manuel reportedly called U.S. Treasury Secretary Snow, U.K. Chancellor Brown, and Canadian Finance Minister Goodale to make this pitch.

14. (C) Van Rensburg confirmed that Manuel met with Zimbabwe Reserve Bank head Gideon Gono July 15, and that this was followed by a more technical meeting at the working level. (Note: ICG's Masamvu also talked to Gono, who said that Mugabe sent him to Pretoria as his envoy to discuss the terms of a possible loan.) Loan discussions are still in the preliminary stage. There is no agreement on the amount of the loan or on the conditions. South Africa is looking at making a payment on the GRA of about \$170 million to forestall the IMF expelling Zimbabwe, but South Africa wants more time to negotiate conditions. According to van Rensburg, conditions at this point include very general issues such as ending Operation Restore Order, adherence to the rule of law, and protection of property rights. Van Rensburg thought that there would be some economic conditions as well, e.g., dealing with price controls and ensuring the autonomy of the Zimbabwe Central Bank -- which may require a constitutional change. The bailout would be extended as a loan, to be repayable with interest in tranches.

15. (C) At this time, South Africa has no government-to-government loan with Zimbabwe. The South Africa Reserve Bank has extended a line of credit to the Zimbabwe Central Bank, but this has never been used, although van Rensburg believes that Zimbabwe may have recently requested to use it. Van Rensburg thought that Zimbabwe owed Eskom, the South Africa state electricity company, and South African petroleum companies about \$200 million, but is not definite on the amount.

16. (C) Senior SAG spokesman Joel Netshitenzhe said publicly July 18 that it was "quite possible" that recent discussions between the GOZ and SAG covered "assistance that Zimbabwe required." Netshitenzhe said that principles guiding the possible loan would be Zimbabwe's economic recovery and political normalization. He added that the decision to offer financial assistance to the GOZ must pass through Cabinet and Parliament. The opposition Democratic Alliance criticized the possible loan to Zimbabwe, saying it was extending a lifeline to a dying regime.

Comment

17. (C) South Africa has apparently decided that it cannot stand on the sidelines as Zimbabwe's economy collapses. For the last five years, Zimbabwe's decline has been a "predictable disaster" which the South Africans believed they could manage while seeking a political solution to the crisis. In recent weeks the situation has become much less predictable. This has led to the SAG's flurry of activity to find an economic and political solution to the crisis. "Containing" the situation in Zimbabwe so that it does not spill over into South Africa -- at least not too much -- has always been one of the prime motivations behind SAG policy. South Africa wants Mugabe gone, but through controlled constitutional change -- not economic implosion or a violent uprising.

18. (C) It appears that a deal is in the works: South Africa will provide a loan to Zimbabwe (and help stave off the IMF expulsion vote) in return for commitments on serious economic reform and dialogue with the MDC. President Mbeki's call to the Charge July 18 urging that the U.S. react with caution to the forthcoming UN report on Operation Restore Order (reftel) suggests that he does not want the international response to the UN report to scuttle his plan. In the SAG view, the potential loan deal has the twin benefits of staving off the economic collapse while reenergizing the dormant political talks on reforming the constitution.

19. (C) The question is whether Mugabe will really stick to the agreement once South Africa has provided funds and helped bail him out with the IMF. We note that the South Africans do not appear to have asked for a timetable for Mugabe's exit or a commitment not to run in 2008. We also note that Mugabe is reportedly traveling to China July 23 (and may have sent feelers to Indonesia and/or Iran), possibly to request financial assistance as a counter to Pretoria. Mugabe has consistently outplayed the South Africans, but this time Pretoria thinks it finally has the upper hand.
HARTLEY